

EXECUTIVE SUMMARY

The state's economy was described as a train in the January 2003 *Idaho Economic Forecast*. This analogy also applies in comparing the current forecast to the previous one. Specifically, Idaho's economy is expected to leave the station for the recovery tracks later than in the previous forecast, and it will travel slower once it gets there. Idaho nonfarm employment growth is lower than in the previous forecast, resulting in lower levels of employment in each year. In the current forecast Idaho nonfarm employment fell an estimated 0.7% in 2002, compared to the previous forecast of a 0.3% decline. Idaho employment is projected to rise 0.1% in 2003, 1.5% in 2004, 1.7% in 2005, and 2.0% in 2006. In the previous forecast this measure was anticipated to grow 0.9% in 2003, 1.9% in 2004, 2.4% in 2005, and 3.3% in 2006. As a result of this faster growth, Idaho nonfarm employment was anticipated to reach 615,397 in 2006. This is significantly higher than the current estimate of 594,621 for 2006. The Gem State's goods-producing employment sector is hardest hit in this forecast. In the previous forecast the number of jobs in this sector was expected to shrink slightly in 2002 then enjoy moderate growth thereafter. In the current forecast, Idaho goods-producing employment retreats sharply in 2003 (3.6% versus 1.1%). Idaho's services-producing sector is projected to fare better than the goods-producing sector, but not as well as was previously believed. Services-producing employment is forecast to increase 1.0% this year and about 2.1% annually in the remaining years of the forecast. This is slower than the original forecast where service sector job growth accelerated from 1.3% in 2002, to 1.9% in 2004, to 2.4% in 2005, and to 3.3% in 2006. In 2006, services-producing employment is estimated to be about 9,400 (1.9%) lower than the former projection. Idaho nominal personal income is lower in the current forecast in 2003 and this gap widens over time. By 2006, it is about \$800 million (2.0%) lower than previously projected. The gap between real Idaho personal income is not as wide because the outlook for inflation is lower in the current forecast.

The nation's economic recovery trajectory also has been lowered compared to the previous forecast. In the earlier *Forecast*, it was believed real GDP would return to near its potential of around 4.2% in the second half of this year. In the current forecast it averages about 4.0%. Real GDP is forecast to rise 2.7% in 2003, 4.3% in 2004, 3.4% in 2005, and 3.1% in 2006. Unfortunately, the nation's unemployment rate should stay stubbornly high during 2003. Specifically, it is expected to peak at 6.1% in the second quarter of this year and fall slightly to 5.8% by year's end. As a result of the stronger job market next year, the unemployment rate is anticipated to be 5.2% by the end of 2004. After 2004, U.S. nonfarm employment growth is forecast to dip below 2.0%, but it will be strong enough to pull the unemployment rate toward 5.0%. The current forecast assumes the Federal Reserve will continue its "wait-and-see" policy until it is convinced of the economy's strength. The nation's central bank has passed on several recent opportunities to raise its federal funds rate from 1.25%. Eventually, the Federal Reserve will raise this bellwether rate. Specifically, this forecast assumes the Federal Reserve will gradually increase the federal funds rate in the second half of this year, and it will near 2.0% by year's end. This forecast also assumes the President and Congress will craft a set of tax cuts designed to revive the moribund economy. This forecast assumes the final budget will include a tax package worth \$60 billion in its first year and cost about \$350 billion overall. Near term, the cuts should boost consumer spending, but not investment spending. Given the federal governments' budget predicament, the odds are low it will be able to bail out state governments that are facing their worse budget woes in a generation. One recent estimate shows states are looking at a collective \$30 billion shortfall for this fiscal year and an \$82 billion deficit in fiscal year 2004.

IDAHO ECONOMIC FORECAST

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APRIL 2003

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
GDP (BILLIONS)										
Current \$	8,318	8,782	9,274	9,825	10,082	10,446	10,907	11,590	12,226	12,868
% Ch	6.5%	5.6%	5.6%	5.9%	2.6%	3.6%	4.4%	6.3%	5.5%	5.2%
1996 Chain-Weighted	8,159	8,509	8,859	9,191	9,215	9,440	9,696	10,116	10,463	10,783
% Ch	4.4%	4.3%	4.1%	3.8%	0.3%	2.4%	2.7%	4.3%	3.4%	3.1%
PERSONAL INCOME - CURR \$										
Idaho (Millions)	25,227	27,066	28,931	31,314	32,525	33,646	35,080	36,956	38,840	41,159
% Ch	4.4%	7.3%	6.9%	8.2%	3.9%	3.4%	4.3%	5.3%	5.1%	6.0%
Idaho Nonfarm (Millions)	24,557	26,149	27,901	30,519	31,562	32,657	33,943	35,696	37,609	39,838
% Ch	5.4%	6.5%	6.7%	9.4%	3.4%	3.5%	3.9%	5.2%	5.4%	5.9%
U.S. (Billions)	6,937	7,426	7,786	8,407	8,685	8,947	9,311	9,812	10,337	10,908
% Ch	6.0%	7.0%	4.9%	8.0%	3.3%	3.0%	4.1%	5.4%	5.4%	5.5%
PERSONAL INCOME - 1996 \$										
Idaho (Millions)	24,745	26,268	27,622	29,158	29,686	30,298	30,979	32,142	33,116	34,335
% Ch	2.4%	6.2%	5.2%	5.6%	1.8%	2.1%	2.2%	3.8%	3.0%	3.7%
Idaho Nonfarm (Millions)	24,088	25,379	26,639	28,418	28,807	29,407	29,975	31,047	32,066	33,234
% Ch	3.4%	5.4%	5.0%	6.7%	1.4%	2.1%	1.9%	3.6%	3.3%	3.6%
U.S. (Billions)	6,805	7,208	7,435	7,828	7,927	8,057	8,222	8,534	8,814	9,100
% Ch	3.9%	5.9%	3.2%	5.3%	1.3%	1.6%	2.1%	3.8%	3.3%	3.2%
HOUSING STARTS										
Idaho	8,865	10,114	10,350	11,535	12,258	13,225	12,971	11,848	11,161	10,690
% Ch	-3.9%	14.1%	2.3%	11.5%	6.3%	7.9%	-1.9%	-8.7%	-5.8%	-4.2%
U.S. (Millions)	1.475	1.621	1.647	1.573	1.603	1.711	1.672	1.567	1.562	1.580
% Ch	0.4%	9.9%	1.6%	-4.5%	1.9%	6.8%	-2.3%	-6.3%	-0.3%	1.1%
TOTAL NONFARM EMPLOYMENT										
Idaho (Thousands)	508.7	521.5	539.1	559.3	568.3	564.1	564.7	573.4	583.2	594.6
% Ch	3.3%	2.5%	3.4%	3.7%	1.6%	-0.7%	0.1%	1.5%	1.7%	2.0%
U.S. (Millions)	122.7	125.9	128.9	131.7	131.9	130.8	131.1	133.5	136.0	137.7
% Ch	2.6%	2.6%	2.4%	2.2%	0.2%	-0.9%	0.2%	1.9%	1.8%	1.3%
SELECTED INTEREST RATES										
Federal Funds	5.5%	5.4%	5.0%	6.2%	3.9%	1.7%	1.5%	3.1%	4.2%	4.9%
Bank Prime	8.4%	8.4%	8.0%	9.2%	6.9%	4.7%	4.5%	6.1%	7.2%	7.9%
Existing Home Mortgage	7.7%	7.1%	7.3%	8.0%	7.0%	6.5%	6.1%	7.0%	7.7%	7.9%
INFLATION										
GDP Price Deflator	1.9%	1.2%	1.4%	2.1%	2.4%	1.1%	1.7%	1.9%	2.0%	2.1%
Personal Cons Deflator	1.9%	1.1%	1.6%	2.5%	2.0%	1.4%	2.0%	1.5%	2.0%	2.2%
Consumer Price Index	2.3%	1.5%	2.2%	3.4%	2.8%	1.6%	2.3%	1.6%	2.1%	2.3%

National Variables Forecast by GLOBAL INSIGHT

Forecast Begins the FOURTH Quarter of 2002

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	2003				2004				2005			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP (BILLIONS)												
Current \$	10,689	10,817	10,983	11,140	11,344	11,517	11,674	11,825	11,995	12,146	12,300	12,465
% Ch	3.9%	4.9%	6.3%	5.8%	7.5%	6.2%	5.6%	5.3%	5.9%	5.1%	5.2%	5.5%
1996 Chain-Weighted	9,576	9,642	9,732	9,835	9,968	10,078	10,167	10,248	10,340	10,419	10,501	10,591
% Ch	2.4%	2.8%	3.8%	4.3%	5.5%	4.5%	3.6%	3.2%	3.6%	3.1%	3.2%	3.5%
PERSONAL INCOME - CURR \$												
Idaho (Millions)	34,575	34,947	35,189	35,609	36,129	36,707	37,300	37,688	38,119	38,632	39,097	39,514
% Ch	6.2%	4.4%	2.8%	4.9%	6.0%	6.5%	6.6%	4.2%	4.7%	5.5%	4.9%	4.3%
Idaho Nonfarm (Millions)	33,349	33,699	34,142	34,582	35,046	35,475	35,904	36,360	36,861	37,353	37,842	38,380
% Ch	3.5%	4.3%	5.4%	5.3%	5.5%	5.0%	4.9%	5.2%	5.6%	5.4%	5.3%	5.8%
U.S. (Billions)	9,155	9,251	9,360	9,476	9,615	9,746	9,882	10,006	10,140	10,272	10,399	10,538
% Ch	3.5%	4.2%	4.8%	5.1%	6.0%	5.6%	5.7%	5.1%	5.5%	5.3%	5.0%	5.4%
PERSONAL INCOME - 1996 \$												
Idaho (Millions)	30,729	30,881	31,011	31,294	31,629	32,022	32,380	32,537	32,746	33,027	33,254	33,438
% Ch	3.6%	2.0%	1.7%	3.7%	4.4%	5.1%	4.5%	1.9%	2.6%	3.5%	2.8%	2.2%
Idaho Nonfarm (Millions)	29,641	29,779	30,088	30,392	30,681	30,947	31,168	31,390	31,666	31,933	32,187	32,479
% Ch	1.0%	1.9%	4.2%	4.1%	3.9%	3.5%	2.9%	2.9%	3.6%	3.4%	3.2%	3.7%
U.S. (Billions)	8,137	8,175	8,248	8,328	8,417	8,502	8,579	8,638	8,711	8,782	8,845	8,918
% Ch	0.9%	1.9%	3.7%	3.9%	4.4%	4.1%	3.6%	2.8%	3.4%	3.3%	2.9%	3.3%
HOUSING STARTS												
Idaho	13,599	13,112	12,745	12,427	12,085	11,975	11,781	11,549	11,375	11,194	11,086	10,991
% Ch	-53.6%	-13.6%	-10.7%	-9.6%	-10.6%	-3.6%	-6.3%	-7.7%	-5.9%	-6.2%	-3.8%	-3.4%
U.S. (Millions)	1,774	1,687	1,633	1,594	1,571	1,574	1,562	1,561	1,560	1,559	1,561	1,570
% Ch	4.1%	-18.2%	-12.1%	-9.3%	-5.6%	0.8%	-3.0%	-0.3%	-0.2%	-0.4%	0.5%	2.5%
TOTAL NONFARM EMPLOYMENT												
Idaho (Thousands)	562.6	563.0	565.2	567.9	570.4	572.7	574.4	576.2	579.2	582.1	584.7	587.1
% Ch	0.0%	0.3%	1.6%	1.9%	1.8%	1.6%	1.2%	1.3%	2.1%	2.0%	1.8%	1.7%
U.S. (Millions)	130.7	130.8	131.0	131.7	132.5	133.1	133.9	134.6	135.2	135.7	136.3	136.7
% Ch	-0.3%	0.3%	0.7%	2.0%	2.4%	2.1%	2.3%	2.1%	1.8%	1.7%	1.5%	1.4%
SELECTED INTEREST RATES												
Federal Funds	1.3%	1.3%	1.3%	2.0%	2.5%	2.9%	3.4%	3.6%	3.9%	4.0%	4.3%	4.5%
Bank Prime	4.3%	4.3%	4.3%	5.0%	5.5%	5.9%	6.4%	6.6%	6.9%	7.0%	7.3%	7.5%
Existing Home Mortgage	6.1%	6.2%	6.1%	6.1%	6.6%	6.8%	7.1%	7.5%	7.6%	7.7%	7.8%	7.8%
INFLATION												
GDP Price Deflator	1.5%	2.0%	2.4%	1.5%	1.9%	1.7%	1.9%	2.0%	2.2%	2.0%	2.0%	1.9%
Personal Cons Deflator	2.5%	2.3%	1.1%	1.1%	1.6%	1.4%	2.0%	2.2%	2.0%	2.0%	2.1%	2.1%
Consumer Price Index	2.9%	2.6%	1.4%	1.3%	1.6%	1.5%	2.0%	2.2%	2.1%	2.0%	2.2%	2.1%

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